

**MERCED COUNTY  
OFFICE OF EDUCATION**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2008**

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**MERCED COUNTY OFFICE OF EDUCATION**  
**OF MERCED COUNTY**  
**MERCED, CALIFORNIA**  
**JUNE 30, 2008**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
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Mary Ellen Chavez	Vice Chairperson	2009
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**ADMINISTRATION**

Lee Andersen	County Superintendent
Nelson Heisey	Assistant Superintendent, Business Services





# MERCED COUNTY OFFICE OF EDUCATION

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Merced County Office of Education  
Merced, California

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Merced County Office of Education (MCOE) as of and for the year ended June 30, 2008, which collectively comprise MCOE's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MCOE's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Merced County Office of Education, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008, on our consideration of MCOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 14 and budgetary comparison information on pages 49 through 53, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MCOE's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, the Combining Statements - Non-Major Governmental Funds, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

*Vaukenek, Orino, Day & Co., LLP*

Fresno, California  
December 16, 2008

# Merced County Office of Education

Lee Andersen, Superintendent



Equal Opportunity Employer

This section of the Merced County Office of Education's (MCOE) annual financial report presents our discussion and analysis of MCOE's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with MCOE's financial statements immediately following this section. Comparative information will be presented between the fiscal years ending June 30, 2007 and June 30, 2008.

The Merced County Office of Education operates education programs for special populations of Merced County students and also provides instructional and business services to the school districts within Merced County. Services provided to districts include administrative, fiscal, personnel, technology, media, curriculum, staff training, psychological, occupational training, and governmental relations. The MCOE also operates a large alternative payment program for child care providers.

Educational programs operated for special populations of students include a three-county regional Migrant program (Merced, Stanislaus, and Madera), Special Education, Regional Occupational Program, Community School, Juvenile Court School, and Outdoor School. The MCOE also operates a Charter School, a county-wide after school program, and a Head Start program.

The Merced County Office of Education has almost 1400 employees with an annual operating budget of about \$100 million. This includes a general fund budget of about \$75 million and a child development fund budget of about \$25 million. The MCOE is comprised of an administrative complex housing the Superintendent's office, various program and support offices, a library/media center, print shop, warehouse, and maintenance facility. The MCOE also has several major school sites and operates instructional programs in over 100 locations.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

### ***The Financial Statements***

The financial statements presented herein include all of the activities of the Merced County Office of Education and its component units using the integrated approach prescribed by GASB Statement Number 34.

## MERCED COUNTY OFFICE OF EDUCATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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The *Government-Wide Financial Statements* present the financial picture of MCOE from the economic resources measurement focus using the accrual basis of accounting. MCOE statements present only governmental activities, as MCOE has no business-type activities. These statements include all assets of MCOE (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have been made as prescribed by the GASB Statement for interfund activity for payables and receivables.

The *Fund Financial Statements* include statements for each of the two types of activities: governmental, and fiduciary. MCOE has no business-type funds.

The *Governmental Activities* statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The primary unit of government is the Merced County Office of Education.

#### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

MCOE's stated financial net worth has increased over the prior fiscal year. Total net assets at the end of FY 2008 are \$89.9 million. This is an increase of \$6.0 million over the year ending June 30, 2007. This increase is partly due to revenue received for facility projects which in turn is reflected as construction in progress and ultimately capital assets. Several million dollars in capital assets were added to the inventory this year. There were also grants that were received but not completely spent. Overall, revenues were greater than expenses in some programs. Balances in most of MCOE's funds have increased over the previous year. MCOE revised its capitalization level for fixed assets this year. The threshold for equipment was revised from \$5,000 to \$10,000 and facilities/improvements from \$15,000 to \$25,000.

MCOE has only a small amount of outstanding long-term debt. The organization has issued Certificates of participation (COPs) with an outstanding balance of \$1,580,000. In FY 03/04, the MCOE obtained a Qualified Zone Academy Bond (QZAB) of \$1 million which was totally defeased (prefinanced) with a deposit of \$554,461. In FY 05-06, the office was awarded a second QZAB of \$2,000,000. This QZAB is being paid off over a period of 15 years.



# MERCED COUNTY OFFICE OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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### **REPORTING MCOE AS A WHOLE**

#### *The Statement of Net Assets and the Statement of Activities and Changes in Net Assets*

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* report financial information about MCOE as a whole and about its activities. These statements include *all* assets and liabilities of MCOE using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report MCOE's *net assets* and any changes in them. Net assets are the difference between assets and liabilities and are one way to measure MCOE's financial health, or *financial position*. Over time, *increases or decreases* in MCOE's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the condition of MCOE's facilities and size of the reserves.

The difference between revenue and expense is MCOE's *operating result*. MCOE's responsibility is to provide services to our students, Merced county school districts and other populations, and not to generate profit as commercial entities do. Hence one must consider other factors when evaluating the *overall health* of MCOE. The quality of the education and services we provide and the safety and condition of our schools would likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, we display MCOE activities as follows:

**Governmental Activities** - Most of MCOE's activities are reported in this category. This includes the education of students with special needs or at risk youth in kindergarten through grade twelve. Services include the education of ROP students, Migrant education activities, Head Start programs and alternate payment programs for child care providers. MCOE also provides a variety of business and instructional services to Merced County School Districts and funds an on-going effort to improve and maintain MCOE buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants finance these activities.

### **REPORTING MCOE'S MOST SIGNIFICANT FUNDS**

#### *Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds - not MCOE as a whole. Some funds are required by State law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

## MERCED COUNTY OFFICE OF EDUCATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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**Governmental Funds** - Most of MCOE's basic services are reported in governmental funds. The governmental statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of MCOE's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance MCOE's programs. The differences in results in the governmental fund financial statements compared to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

#### **MCOE AS TRUSTEE**

##### Reporting MCOE's Fiduciary Responsibilities

MCOE is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and scholarships. MCOE's fiduciary activities are reported in separate *Statements of Fiduciary Net Assets*. We exclude these activities from MCOE's other financial statements because MCOE cannot use these assets to finance its operations. MCOE is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### **FINANCIAL ANALYSIS OF MCOE AS A WHOLE**

##### Net Assets

MCOE's net assets were \$89.87 million for the fiscal year ended June 30, 2008, and \$83.88 million for the fiscal year ended June 30, 2007; an increase of over \$5.99 million. Of this amount, \$1.53 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the MCOE's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of MCOE's governmental activities for the past two fiscal years.

# MERCED COUNTY OFFICE OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

**Table 1**

### Net Assets

(in millions of dollars/net of depreciation)

	Governmental Activities		Difference
	FY 07-08	FY 06-07	
Current and other assets	\$ 53.14	\$ 53.97	\$ (0.83)
Capital assets	49.49	46.93	2.56
<b>Total Assets</b>	<b>102.63</b>	<b>100.90</b>	<b>1.73</b>
Current liabilities	8.00	11.96	(3.96)
Long-term obligations	4.76	5.06	(0.30)
<b>Total Liabilities</b>	<b>12.76</b>	<b>17.02</b>	<b>(4.26)</b>
Net assets			
Invested in capital assets, net of related debt	45.12	42.28	2.84
Restricted	43.22	40.26	2.96
Unrestricted	1.53	1.34	0.19
<b>Total Net Assets</b>	<b>\$ 89.87</b>	<b>\$ 83.88</b>	<b>\$ 5.99</b>

The \$1.53 million in current year unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay of all of our bills today including all of our non-capital liabilities (compensated absences as an example) we would have \$1.53 million left. The \$5.99 million increase in net assets mostly reflects a decrease in current liabilities - a result of fewer outstanding bills from construction programs. Over \$4.0 million in capital assets were added to our inventory this year either through acquisition or converted from work in progress. Long term obligations have decreased slightly from last year.

### Changes in Net Assets

The results of the past two year's operations for MCOE as a whole are reported in the *Statement of Activities*. Table 2 takes the information from this Statement, and rearranges it slightly so you can see our total revenues and expenses on a functional basis for the past two years.

# MERCED COUNTY OFFICE OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

**Table 2**

**Changes in Net Assets**  
(in millions of dollars)

	Governmental Activities		Difference
	FY 07-08	FY 06-07	
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 5.94	\$ 5.53	\$ 0.41
Operating grants and contributions	69.70	62.48	7.22
Capital grants and contributions	1.25	14.06	(12.81)
General revenues:			
Federal and State aid not restricted	14.20	13.94	0.26
Property taxes	10.11	10.02	0.09
Other general revenues	3.44	2.83	0.61
<b>Total Revenues</b>	<u>104.64</u>	<u>108.86</u>	<u>(4.22)</u>
<b>Expenses</b>			
Instruction related	52.88	46.37	6.51
Student support services	17.61	15.80	1.81
Administration	8.19	6.64	1.55
Maintenance and operations	4.66	5.03	(0.37)
Community services	14.27	13.46	0.81
Other	1.04	1.04	-
<b>Total Expenses</b>	<u>98.65</u>	<u>88.34</u>	<u>10.31</u>
<b>Change in Net Assets</b>	<u>\$ 5.99</u>	<u>\$ 20.52</u>	<u>\$ (14.53)</u>

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was approximately \$98.65 million as compared to \$88.34 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$10.11 million because the cost was paid by those who benefited from the programs (\$5.94 million) or by government and other organizations who subsidized certain programs with grants and contributions (\$69.7 million). We received capital grants of \$1.25 million. We paid for the remaining "public benefit" portion of our governmental activities with \$14.2 million in State or Federal funds, and with other revenues like interest and general entitlements of \$3.44 million.

# MERCED COUNTY OFFICE OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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Revenues and expenses in most programs increased in FY 07-08 over the previous year. Program revenues and charges increased with the growing programs. The increase in operating grants and contributions reflect additional program funding. The large decrease in capital grants results from a reduction in funding received from the State School Building Program. This was because we had fewer construction projects this past year due to delays in the approval process and a slowdown in need for facilities. The MCOE has no capacity to issue bonds for construction purposes and receives 100 percent of its funding for new construction from the State (state bond issues).

In Table 3, we have presented the cost of each of MCOE's seven largest functions - program instruction, pupil services, student transportation, administration, community services, plant services, and "other services". The chart shows each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the amount that local taxpayers are required to pay for each of these functions

**Table 3**

### **Net Cost of Governmental Activities**

(Dollar amounts in millions)

	Total Cost of Services	Net Cost of Services
Instruction related	\$ 52,887,095	\$ (12,775,232)
Pupil services	11,274,765	(1,426,010)
Pupil transportation	6,331,908	(2,810,149)
Administration	8,186,758	(3,849,878)
Community services	14,270,581	111,144
Maintenance and operations	4,657,790	(1,405,435)
Other	1,044,493	397,978
<b>Total</b>	<b>\$ 98,653,390</b>	<b>\$ (21,757,582)</b>

### ***FINANCIAL ANALYSIS OF MCOE'S FUNDS***

The financial performance of MCOE as a whole is reflected in its governmental funds. As MCOE completed this fiscal year, our governmental funds reported a balance of \$45.1 million while the prior year reported a balance of \$42.0 million. This was an increase of almost \$3.2 million over the FY 06-07 ending fund balances. Primary activities in these funds were:

Our General Fund is our principal operating fund. The fund balance in the General Fund increased to approximately \$12.3 million. This increase of almost \$2.5 million over last year results from funds received late in the year and not spent, unanticipated growth in attendance, unplanned revenue, and some reduction in expenses.

## MERCED COUNTY OFFICE OF EDUCATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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Our special revenue fund balances also increased slightly over the previous year. Main funds include the Pupil Transportation Fund which is established for the benefit of districts in the Merced SELPA. We also have established a separate fund for the operation of our charter school, as well as, a Child Development Fund to account for the child development programs that MCOE operates.

We have two special reserve funds. One Special Reserve Fund is established to fund MCOE's liability for post-employment benefits. The second fund is established for Other Than Capital Outlay and is used primarily for cash flow purposes. This fund is necessary because many of our programs are funded on a reimbursable basis and money is loaned to these programs throughout the year. The balance in this fund was increased by over \$1.7 million this past year in response to the cash flow needs of the organization. Temporary loans to other funds were made throughout the year. During the year over \$4 million in cash was transferred from this reserve fund to the General and Child Development Funds for cash flow purposes. The cash was replaced by the end of the year. Our capital facilities fund reflects expenditures for various projects for which we have requested State funding.

#### General Fund Budgetary Highlights

Over the course of the year MCOE revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 9, 2008. A schedule showing MCOE's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 49.

Revenue revisions were made to the 2007/08 Budget over the course of the year. Increases in revenue reflect growth in our programs. In addition the state budget included new grants that we did not know about when the Budget was originally adopted. Revenue increased because of higher than anticipated enrollment in our community school. Federal revenue decreased in some of our programs. Total revenue received ended up about \$0.14 million lower than what was originally budgeted.

Expenditures decreased over what was originally budgeted. Transfers to other funds were also more than that were originally budgeted.

In the end, revenue for the year exceeded expenses resulting in a large increase in the ending balance. The majority of the ending balance is reserved for restricted programs.

#### Other Funds

Revenue in other funds was generally close to budget, with revenue exceeding expenses. Our Deferred Maintenance Fund received a regular allocation from the State as well as a local match from the district's general fund. The Pupil Transportation Fund reflects monies held by the MCOE on behalf of the districts for SELPA transportation programs. Changes in the budget reflect the purchase of buses and a transfer back to the General Fund of \$0.8 million to cover costs of transportation above our apportionment.



# MERCED COUNTY OFFICE OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

### *CAPITAL ASSET & DEBT ADMINISTRATION*

#### Capital Assets

As of June 30, 2008, MCOE had \$49.49 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. MCOE revised its capitalization level for fixed assets in FY 07-08. The threshold for equipment was increased from \$5,000 to \$10,000, and that of facilities and improvements from \$15,000 to \$25,000. This revision in capitalization levels resulted in a decrease in capital value of approximately \$500,000. However there was \$4.4 million in inventory additions. The net result after depreciation was an increase in capital assets of about \$2.5 million over FY 06-07. Table 4 displays our capital assets.

**Table 4**

#### **Capital Assets at Year-end**

(Net of depreciation, in millions of dollars)

	Governmental Activities		Difference
	FY 07-08	FY 06-07	
Land	\$ 2.59	\$ 2.59	\$ -
Construction in process	26.06	27.20	(1.14)
Buildings, sites, and improvements	16.58	13.16	3.42
Equipment	4.26	3.98	0.28
<b>Total</b>	<b>\$ 49.49</b>	<b>\$ 46.93</b>	<b>\$ 2.56</b>

This year's additions of approximately \$4.0 million in fixed assets included the purchase of vehicles, network equipment, and various other capital items. Two new Special Education facilities were removed from construction in progress into inventory.

Construction for the Valley Community School in Los Banos was finalized in FY 06-07, though some construction issues remain to be resolved with the contractor. Modernization of a portion of our Schelby School and expansion of our Valley Community School in Merced have been mostly completed but not added to the inventory. We are in the planning stages for construction of additional Valley Community Schools in Livingston and Atwater. We also have an application pending for modernization of Danielson School and the rest of Schelby School. We present more detailed information about our capital assets in Note 4 to the financial statements.

## MERCED COUNTY OFFICE OF EDUCATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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#### Long-Term Obligations

At the end of FY 07-08, MCOE had \$1,580,000 in Certificates of Participation (COPs) outstanding. During the year, we paid \$215,000 in principal reduction on these COPs. In FY 03/04, the MCOE obtained a Qualified Zone Academy Bond of \$1 million. This debt was totally defeased with a deposit of \$554,461. In FY 05-06, the MCOE obtained a second QZAB of \$2 million which is to be paid back over a period of fifteen years. Payment of \$105,140 in principal was made to this QZAB during FY 07-08.

**Table 5**

#### **Outstanding Debt at Year-end**

(Net of depreciation)

	Governmental Activities		Difference
	FY 07-08	FY 06-07	
Certificates of participation	\$ 1,580,000	\$ 1,795,000	\$ (215,000)
QZAB	2,789,720	2,894,860	(105,140)
Other	386,147	370,590	15,557
<b>Total</b>	<b>\$ 4,755,867</b>	<b>\$ 5,060,450</b>	<b>\$ (304,583)</b>

#### ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS***

California continues to experience a huge problem in its state finances. The state's ongoing expenditures again exceed ongoing revenue resulting in large deficits at the state level. The state legislature has been unable to resolve the problem. Current estimates place the deficit for the current and prior fiscal year at over \$15 billion. As of the date of this writing, adoption of a state budget is 60 days beyond its legal due date. In the meantime, the budget MCOE has adopted contains no increase in cost of living adjustment (COLA) for any program. We have not budgeted for any increase in salaries or benefits. This applies to our all main programs including our Community School, Juvenile Court school, ROP, Special Education, and various other programs that provide services to districts and other populations in Merced County. MCOE also receives funding from a variety of sources other than the state. Most of these programs also received no increase in funding or else suffered a reduction in scope.

Merced County Office of Education (MCOE) has for the past several years experienced double-digit increases in Health and Welfare rates. We expect another increase of approximately 6-7% in 2008-2009. This is an increase in premiums of close to \$650 per year, per employee. Increases are due to rising health care costs, prescription costs and benefit usage. Worker's compensation costs for the MCOE decreased slightly for the coming year.

In FY 08-09 MCOE will become subject to GASB Statement 45 which requires public agencies to account for their liability for other personnel benefit programs (OPEB) for retirees. MCOE is making plans to fund its annual required contribution (ARC).



## MERCED COUNTY OFFICE OF EDUCATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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For the planning and preparation of the 2008-2009 Budget, we have used the best-known information available to us at the time of compilation. The California State Department of Education, School Services of California, and the California Association of School Business Officials supplied primary sources of data. The MCOE budget was prepared prior to the adoption of the state budget. As noted above, at the time of this writing details of the state budget are still unknown. Therefore the budget is subject to changes which could impact programs and funding. Complete updates of the budget will be reported during our Interim reporting process.

#### *CONTACTING MCOE'S FINANCIAL MANAGEMENT*

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of MCOE's finances and to show MCOE's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Merced County Office of Education, 632 W. 13th Street, Merced CA, 95341, or e-mail at: [nheisey@mcoe.org](mailto:nheisey@mcoe.org).

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# MERCED COUNTY OFFICE OF EDUCATION

## STATEMENT OF NET ASSETS

JUNE 30, 2008

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 41,048,889
Receivables	12,052,055
Stores inventories	37,875
Capital assets not depreciated	28,649,568
Capital assets being depreciated	36,530,399
Accumulated depreciation	(15,686,705)
<b>Total Assets</b>	<b>102,632,081</b>
<b>LIABILITIES</b>	
Overdrafts	1,023,231
Accounts payable	6,344,012
Deferred revenue	634,607
Current portion of long-term obligations	716,287
Noncurrent portion of long-term obligations	4,039,580
<b>Total Liabilities</b>	<b>12,757,717</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	45,123,542
Restricted for:	
Capital projects	6,490,591
Educational programs	10,429,622
Other activities	18,749,618
Retiree Benefits	7,552,517
Unrestricted	1,528,474
<b>Total Net Assets</b>	<b>\$ 89,874,364</b>

The accompanying notes are an integral part of these financial statements.

# MERCED COUNTY OFFICE OF EDUCATION

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 34,301,654	\$ 497,509	\$ 25,059,913	\$ 1,252,043
Instruction-related activities:				
Supervision of instruction	9,679,770	416,398	7,234,010	-
Instructional library, media, and technology	736,479	198,610	400,403	-
School site administration	8,169,192	206,639	4,846,338	-
Pupil services:				
Home-to-school transportation	6,331,908	2,157,902	1,363,857	-
Food services	916,091	62,566	825,802	-
All other pupil services	10,358,674	307,988	8,652,399	-
General administration:				
Data processing	2,054,636	-	-	-
All other general administration	6,132,122	206,914	4,129,966	-
Plant services	4,657,790	147,842	3,104,513	-
Community services	14,270,581	1,576,469	12,805,256	-
Interest on long-term obligations	99,473	-	-	-
Other outgo	945,020	169,570	1,272,901	-
<b>Total Governmental-Type Activities</b>	<b>\$ 98,653,390</b>	<b>\$ 5,948,407</b>	<b>\$ 69,695,358</b>	<b>\$ 1,252,043</b>
General revenues and subventions:				
Property taxes, levied for general purposes				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Transfers				
Miscellaneous				
<b>Subtotal, General Revenues</b>				
<b>Change in Net Assets</b>				
Net Assets - Beginning				
Net Assets - Ending				

The accompanying notes are an integral part of these financial statements.

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<b>Net (Expenses)</b> <b>Revenues and</b> <b>Changes in</b> <b>Net Assets</b>	
<b>Governmental</b> <b>Activities</b>	
\$	(7,492,189)
	(2,029,362)
	(137,466)
	(3,116,215)
	(2,810,149)
	(27,723)
	(1,398,287)
	(2,054,636)
	(1,795,242)
	(1,405,435)
	111,144
	(99,473)
	497,451
	<u>(21,757,582)</u>
	1,053,008
	64,528
	14,196,301
	1,753,953
	320,353
	10,359,626
	<u>27,747,769</u>
	5,990,187
	83,884,177
\$	<u><u>89,874,364</u></u>

**MERCED COUNTY OFFICE OF EDUCATION**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2008**

	<b>General Fund</b>	<b>Child Development Fund</b>	<b>Pupil Transportation Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 8,611,429	\$ -	\$ 8,741,121
Receivables	8,873,803	3,002,233	-
Due from other funds	1,354,400	64,164	-
Stores inventories	37,875	-	-
<b>Total Assets</b>	<b>\$ 18,877,507</b>	<b>\$ 3,066,397</b>	<b>\$ 8,741,121</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ 1,019,881	\$ -
Accounts payable	4,210,895	1,582,248	202,773
Due to other funds	1,803,407	294,588	830,109
Deferred revenue	518,962	115,645	-
<b>Total Liabilities</b>	<b>6,533,264</b>	<b>3,012,362</b>	<b>1,032,882</b>
<b>Fund Balances:</b>			
Reserved for:			
Revolving cash	25,700	-	-
Stores inventories	37,875	-	-
Legally Restricted Balance	10,429,622	-	-
Unreserved:			
Designated	1,851,046	54,035	7,708,239
<b>Total Fund Balance</b>	<b>12,344,243</b>	<b>54,035</b>	<b>7,708,239</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 18,877,507</b>	<b>\$ 3,066,397</b>	<b>\$ 8,741,121</b>

The accompanying notes are an integral part of these financial statements.

Special Reserve Non-Capital Fund	Retiree Benefits Special Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 7,530,811	\$ 7,552,517	\$ 6,780,636	\$ 1,832,375	\$ 41,048,889
-	-	822	175,197	12,052,055
1,438,003	-	-	327,302	3,183,869
-	-	-	-	37,875
<u>\$ 8,968,814</u>	<u>\$ 7,552,517</u>	<u>\$ 6,781,458</u>	<u>\$ 2,334,874</u>	<u>\$ 56,322,688</u>
\$ -	\$ -	\$ -	\$ 3,350	\$ 1,023,231
-	-	244,882	103,214	6,344,012
-	-	45,985	209,780	3,183,869
-	-	-	-	634,607
<u>-</u>	<u>-</u>	<u>290,867</u>	<u>316,344</u>	<u>11,185,719</u>
-	-	-	-	25,700
-	-	-	-	37,875
-	-	-	-	10,429,622
<u>8,968,814</u>	<u>7,552,517</u>	<u>6,490,591</u>	<u>2,018,530</u>	<u>34,643,772</u>
<u>8,968,814</u>	<u>7,552,517</u>	<u>6,490,591</u>	<u>2,018,530</u>	<u>45,136,969</u>
<u>\$ 8,968,814</u>	<u>\$ 7,552,517</u>	<u>\$ 6,781,458</u>	<u>\$ 2,334,874</u>	<u>\$ 56,322,688</u>

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MERCED COUNTY OFFICE OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

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Total Fund Balance - Governmental Funds		\$ 45,136,969
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 65,179,967	
Accumulated depreciation is	(15,686,705)	
Net Capital Assets		49,493,262
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Qualified Zone Academy Bonds	(2,789,720)	
Certificates of participation	(1,580,000)	
Compensated absences (vacations)	(386,147)	
Total Long-Term Liabilities		(4,755,867)
Total Net Assets - Governmental Activities		\$ 89,874,364

The accompanying notes are an integral part of these financial statements.

# MERCED COUNTY OFFICE OF EDUCATION

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Child Development Fund	Pupil Transportation Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 23,101,199	\$ -	\$ -
Federal sources	14,909,165	13,429,040	-
Other State sources	29,980,624	6,442,477	-
Other local sources	8,860,611	4,405,822	393,015
<b>Total Revenues</b>	<b>76,851,599</b>	<b>24,277,339</b>	<b>393,015</b>
<b>EXPENDITURES</b>			
Current			
Instruction	30,563,675	3,365,307	-
Instruction-related activities:			
Supervision of instruction	9,122,572	438,398	-
Instructional library, media and technology	699,951	-	-
School site administration	6,197,324	1,779,929	-
Pupil services:			
Home-to-school transportation	5,936,521	-	202,773
Food services	271,925	652,923	-
All other pupil services	9,037,194	1,428,943	-
General administration:			
Data processing	1,901,807	-	-
All other general administration	3,932,949	1,499,375	-
Plant services	3,353,686	1,305,675	-
Facility acquisition and construction	113,942	398,699	-
Community services	876,763	13,401,044	-
Other outgo	945,020	-	-
Enterprise services	10,418	-	-
Debt service			
Principal	320,140	-	-
Interest and other	99,473	-	-
<b>Total Expenditures</b>	<b>73,383,360</b>	<b>24,270,293</b>	<b>202,773</b>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<b>3,468,239</b>	<b>7,046</b>	<b>190,242</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	830,109	-	-
Transfers out	(1,798,668)	-	(830,109)
<b>Net Financing Sources (Uses)</b>	<b>(968,559)</b>	<b>-</b>	<b>(830,109)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,499,680</b>	<b>7,046</b>	<b>(639,867)</b>
<b>Fund Balance - Beginning</b>	<b>9,844,563</b>	<b>46,989</b>	<b>8,348,106</b>
<b>Fund Balance - Ending</b>	<b>\$ 12,344,243</b>	<b>\$ 54,035</b>	<b>\$ 7,708,239</b>

The accompanying notes are an integral part of these financial statements.

Special Reserve Non-Capital Fund	Retiree Benefits Special Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 567,045	\$ 23,668,244
-	-	-	-	28,338,205
-	-	860,278	427,334	37,710,713
298,583	473,533	489,210	5,641	14,926,415
298,583	473,533	1,349,488	1,000,020	104,643,577
-	-	-	360,037	34,289,019
-	-	-	107,872	9,668,842
-	-	-	-	699,951
-	-	-	151,199	8,128,452
-	-	-	-	6,139,294
-	-	-	-	924,848
-	-	-	14,412	10,480,549
-	-	-	-	1,901,807
-	-	-	44,318	5,476,642
-	-	-	94,495	4,753,856
-	-	2,396,456	494,459	3,403,556
-	-	-	136	14,277,943
-	-	-	-	945,020
-	-	-	-	10,418
-	-	-	-	320,140
-	-	-	-	99,473
-	-	2,396,456	1,266,928	101,519,810
298,583	473,533	(1,046,968)	(266,908)	3,123,767
1,473,668	-	-	325,000	2,628,777
-	-	-	-	(2,628,777)
1,473,668	-	-	325,000	-
1,772,251	473,533	(1,046,968)	58,092	3,123,767
7,196,563	7,078,984	7,537,559	1,960,438	42,013,202
\$ 8,968,814	\$ 7,552,517	\$ 6,490,591	\$ 2,018,530	\$ 45,136,969

## MERCED COUNTY OFFICE OF EDUCATION

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE COUNTY-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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Total Net Change in Fund Balances - Governmental Funds \$ 3,123,767

**Amounts Reported for Governmental Activities in the Statement  
of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statements of Activities.

This is the amount by which capital outlays exceed depreciation in the period.

Depreciation expense	\$ (1,531,043)	
Capital outlays	4,140,371	
Net Expense Adjustment		2,609,328

Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (47,491)

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$15,557. (15,557)

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Certificates of participation	215,000	
Qualified Zone Academy Bonds	105,140	
Net Adjustment		320,140
<b>Change in Net Assets of Governmental Activities</b>		<b>\$ 5,990,187</b>

The accompanying notes are an integral part of these financial statements.

# MERCED COUNTY OFFICE OF EDUCATION

## FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2008

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 1,397,198
<b>Total Assets</b>	<u>1,397,198</u>
<b>LIABILITIES</b>	
Due to student groups-ROP	40,635
Due to student groups-Schelby School	30,765
Other current liabilities-Payroll Revolving	1,325,798
<b>Total Liabilities</b>	<u>1,397,198</u>
<b>NET ASSETS</b>	
Unreserved	-
<b>Total Net Assets</b>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

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# MERCED COUNTY OFFICE OF EDUCATION

## DISCRETELY PRESENTED COMPONENT UNIT – VIRGINIA SMITH CHARITABLE TRUST STATEMENT OF FINANCIAL POSITION JUNE 30, 2008 AND 2007

	2008	2007
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 156,767	\$ 160,445
Investments	734,889	548,155
Total Current Assets	891,656	708,600
Endowment Investments:		
Investments	2,000,000	2,000,000
Increase in fair value of investments	800,458	913,297
Total Endowment Investments	2,800,458	2,913,297
Investment in University Community Land Company (UCLC):		
Equity investment in UCLC	1,500,550	1,500,550
Other assets	213,150	213,150
<b>Total Assets</b>	<b>5,405,814</b>	<b>5,335,597</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	1,338	-
Note payable to Merced County Office of Education	16,608	18,590
<b>Total Current Liabilities</b>	<b>17,946</b>	<b>18,590</b>
Net Assets:		
Unrestricted net assets:		
Operating	2,587,410	2,403,710
<b>Total Unrestricted Net Assets</b>	<b>2,587,410</b>	<b>2,403,710</b>
Permanently restricted net assets	2,800,458	2,913,297
<b>Total Net Assets</b>	<b>5,387,868</b>	<b>5,317,007</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,405,814</b>	<b>\$ 5,335,597</b>

The accompanying notes are an integral part of these financial statements.

**MERCED COUNTY OFFICE OF EDUCATION**

**DISCRETELY PRESENTED COMPONENT UNIT – VIRGINIA SMITH  
CHARITABLE TRUST  
STATEMENT OF ACTIVITIES  
JUNE 30, 2008 AND 2007**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>
<b>Public Support, Revenues, and Reclassifications</b>		
Interest, dividends and investments income	\$ 36,481	\$ 69,633
Rent	197,614	
Transfer of investment earnings available for distribution	70,000	(70,000)
Miscellaneous	1,686	-
Total public support, revenues, and reclassifications	<u>305,781</u>	<u>(367)</u>
<b>Expenses and Losses</b>		
Program - Scholarships:		
Scholarships	82,125	-
Supporting Activities:		
Meetings	6,091	-
Legal and professional consultations	14,135	-
Miscellaneous	6,698	-
Total program	<u>109,049</u>	<u>-</u>
Administration:		
Administration - Other	900	-
Merced County Office of Education (MCOE)	50,022	-
Total administration	<u>50,922</u>	<u>-</u>
Total expenses	<u>159,971</u>	<u>-</u>
Unrealized gain/(loss) on investments	<u>37,890</u>	<u>(112,472)</u>
Change in Net Assets	183,700	(112,839)
Net assets as of beginning of year	2,403,710	2,913,297
Net assets as of ending of year	<u>\$ 2,587,410</u>	<u>\$ 2,800,458</u>

The accompanying notes are an integral part of these financial statements.



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Total	
2008	2007
\$ 106,114	\$ 106,536
197,614	178,550
-	-
1,686	3,011
305,414	288,097
82,125	78,625
6,091	5,215
14,135	6,700
6,698	9,350
109,049	99,890
900	900
50,022	108,946
50,922	109,846
159,971	209,736
(74,582)	459,266
70,861	537,627
5,317,007	4,779,380
\$ 5,387,868	\$ 5,317,007

**MERCED COUNTY OFFICE OF EDUCATION**

**DISCRETELY PRESENTED COMPONENT UNIT – VIRGINIA SMITH  
CHARITABLE TRUST  
STATEMENT OF CASH FLOWS  
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 70,861	\$ 537,627
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest receivable	-	260
Accounts payable and accrued liabilities	17,946	18,206
Net Cash Provided for Operating Activities	<u>88,807</u>	<u>556,093</u>
<b>INVESTING ACTIVITIES</b>		
Investments	(186,734)	(28,469)
Endowment investment	112,839	(460,273)
Net Cash Used for Investing Activities	<u>(73,895)</u>	<u>(488,742)</u>
<b>FINANCING ACTIVITIES</b>		
Note payable to Merced County Office of Education	(18,590)	(26,991)
Net Cash Used for Financing Activities	<u>(18,590)</u>	<u>(26,991)</u>
Net increase/(decrease) in cash and cash equivalents	(3,678)	40,360
Cash and cash equivalents as of beginning of year	160,445	120,085
Cash and cash equivalents as of ending of year	<u>\$ 156,767</u>	<u>\$ 160,445</u>

The accompanying notes are an integral part of these financial statements.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Merced County Office of Education provides service to districts within Merced County and operates education programs for special populations of students. Services provided to districts include administrative, fiscal, personnel, data processing, media, curriculum, staff training, psychological, occupational training, and governmental relations.

Educational programs operated for special populations of students are three-county regional Migrant (Merced, Stanislaus, and Madera), Special Education, Regional Occupational Program, Title VII Bilingual/Bicultural, Community School, Juvenile Court School, Job Training Partnership Act, and Outdoor School.

The Merced County Office of Education maintains an administrative office complex, library/media center, teachers' center, print shop, and warehouse/stores and has 176 school sites that are employee workstations.

#### Component Units

Component units are legally separate organizations for which MCOE is financially accountable. Component units may also include organizations that are fiscally dependent on MCOE in that MCOE approves their budget, and other activities. The component unit, although a legally separate tax-exempt entity, is reported in the financial statements using the discrete presentation method as the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of MCOE and the economic resources received from or held by an individual organization are significant to MCOE.

**Virginia Smith Charitable Trust** MCOE and the Virginia Smith Charitable Trust (the trust) have a financial and operational relationship, which meets the reporting entity definition criteria of GASB Statement 14, "The Financial Reporting Entity," for inclusion of the trust as a component unit of MCOE.

#### Other Related Entities

**Charter School** MCOE has approved a charter for Merced Scholar Charter School pursuant to Education Code Section 47605. The Merced Scholar Charter School is operated by MCOE, and its financial activities are presented in the Charter School Fund. The Merced Scholar Charter School is operated by MCOE and not considered a component unit of the District. The District receives revenue on behalf of the Merced Scholar Charter School which it passes on to the Charter. This activity is accounted for in the Charter School Special Revenue Fund.

#### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. MCOE's funds are grouped into two broad fund categories: governmental and fiduciary.

## MERCED COUNTY OFFICE OF EDUCATION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

---

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are MCOE's major and non-major governmental funds:

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all county offices of education. It is used to account for the ordinary operations of a county office of education. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Pupil Transportation Equipment Fund** The Pupil Transportation Equipment Fund is used to account separately for State and local revenues specifically for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

**Special Reserve Fund for Other Than Capital Outlay Projects** The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840)

**Special Reserve Fund for Postemployment Benefits** The Special Reserve Fund for Postemployment Benefits may be used pursuant to *Education Code* Section 42840 to account for amounts MCOE has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

#### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

**Charter School Fund** The Charter School Fund may be used by authorizing a county office of education to account separately for the activities of county office of education-operated charter schools that would otherwise be reported in the authorizing county office of education's General Fund.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

---

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and MCOE's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is used to report the MCOE's agency funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. MCOE's agency fund accounts for student body activities for ROP, MCOE's payroll clearing account, and the Shelby School ASB.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of MCOE and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. MCOE does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of MCOE.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

**Fund Financial Statements** Fund financial statements report detailed information about MCOE. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

## MERCED COUNTY OFFICE OF EDUCATION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45, 60 or 90 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which MCOE receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Deferred Revenue** Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by MCOE prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when MCOE has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

#### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.



# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### Investments

Investments held at June 30, 2008, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

### Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

### Stores Inventory

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of MCOE. MCOE maintains a capitalization threshold of \$10,000 for equipment and \$25,000 for facilities improvements. MCOE does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

## **MERCED COUNTY OFFICE OF EDUCATION**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2008**

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#### **Compensated Absences**

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in MCOE's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

#### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

#### **Fund Balance Reserves and Designations**

MCOE reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.



# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$43,222,348 of restricted net assets, of which \$26,701,017 is restricted by enabling legislation.

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. MCOE governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Merced bills and collects the taxes on behalf of MCOE. Local property tax revenues are recorded when received.

## MERCED COUNTY OFFICE OF EDUCATION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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#### New Accounting Pronouncements

In July 2004, GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. MCOE will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. MCOE is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In June 2005, GASB issued GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASB Statement No. 47 should be applied simultaneously with the requirements of GASB Statement No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASB Statement No. 47 is effective for financial statements for periods beginning after June 15, 2005.

In May 2007, GASB issued GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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In June 2007, GASB issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

In November 2007, GASB issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

In June 2008, GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

## MERCED COUNTY OFFICE OF EDUCATION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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#### NOTE 2 - DEPOSITS AND INVESTMENTS

##### Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 41,048,889
Fiduciary funds	1,397,198
Total Deposits and Investments	<u>\$ 42,446,087</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 723,885
Cash in revolving	25,700
Investments	41,696,502
Total Deposits and Investments	<u>\$ 42,446,087</u>

The Child Development and Charter School Funds had deficit cash in County Treasury balances at June 30, 2008, of \$1,019,881 and \$3,350, respectively.

##### Policies and Practices

MCOE is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury** - MCOE is considered to be an involuntary participant in an external investment pool as MCOE is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of MCOE's investment in the pool is reported in the accounting financial statements at amounts based upon MCOE's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**Investment in the Self-Insured Schools of California** - MCOE is a voluntary participant in the Self-Insured Schools of California (SISC) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of MCOE's investment in the pool is reported in the accompanying financial statement at amounts based upon MCOE's pro-rata share of the fair value provided by SISC for the entire SISC portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SISC, which is recorded on the amortized cost basis.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. MCOE manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### Segmented Time Distribution

Information about the sensitivity of the fair values of MCOE's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of MCOE's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
U.S. Treasuries	\$ 322,260	\$ 322,260	\$ -	\$ -	\$ -
Held by Bond Trustee					
Investment Contract	5,958	-	-	-	5,958
County Pool	36,961,504	36,961,504	-	-	-
SISC Investment Pool	4,406,780	-	-	-	4,406,780
Total	<u>\$ 41,696,502</u>	<u>\$ 37,283,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,412,738</u>

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, MCOE's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
U.S. Treasuries	\$ 322,260	N/A	\$ -	\$ -	\$ 322,260
Held by Bond Trustee					
Investment Contract	5,958	N/A	-	-	5,958
County Pool	36,961,504	N/A	-	-	36,961,504
SISC Investment Pool	4,406,780	N/A	-	-	4,406,780
Total	<u>\$ 41,696,502</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,696,502</u>

N/A - Not applicable

### Concentration of Credit Risk

The investment policy of MCOE contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer that represent five percent or more of the total investments.



# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, MCOE's deposits may not be returned to it. MCOE does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, MCOE's bank balance was not exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of MCOE.

### Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, MCOE will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in UBS Commercial Paper and SISC of \$4,412,738, MCOE has a custodial credit risk exposure of \$4,412,738 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. MCOE does not have a policy limiting the amount of securities that can be held by counterparties.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Child Development Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 1,997,588	\$ 1,985,271	\$ -	\$ -	\$ 3,982,859
State Government					
Apportionment	192,169	-	-	158,303	350,472
Categorical aid	2,484,313	7,102	-	7,070	2,498,485
Other	368,534	-	-	6,862	375,396
District Transportation					
Contracts	2,133,635	-	-	-	2,133,635
Other	1,697,564	1,009,860	822	2,962	2,711,208
Total	<u>\$ 8,873,803</u>	<u>\$ 3,002,233</u>	<u>\$ 822</u>	<u>\$ 175,197</u>	<u>\$ 12,052,055</u>

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 2,585,914	\$ -	\$ -	\$ 2,585,914
Construction in progress	26,346,814	2,665,993	2,949,153	26,063,654
Total Capital Assets Not Being Depreciated	28,932,728	2,665,993	2,949,153	28,649,568
Capital Assets being depreciated				
Land improvements	2,080,603	351,271	-	2,431,874
Buildings and improvements	20,884,399	2,862,619	-	23,747,018
Furniture and equipment	9,258,099	1,209,641	116,233	10,351,507
Total Capital Assets Being Depreciated	32,223,101	4,423,531	116,233	36,530,399
Less Accumulated Depreciation				
Land improvements	1,229,671	71,880	-	1,301,551
Buildings and improvements	7,721,352	573,593	-	8,294,945
Furniture and equipment	5,273,381	885,570	68,742	6,090,209
Total Accumulated Depreciation	14,224,404	1,531,043	68,742	15,686,705
Governmental Activities Capital Assets, Net	\$46,931,425	\$5,558,481	\$2,996,644	\$ 49,493,262

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 661,044
Supervision of Instruction	32,023
Instructional Library Media and Technology	38,783
School Administration	117,350
Pupil Transportation	395,387
Food Services	9,047
Other Pupil Services	36,932
Other General Administration	61,680
Data Processing Services	139,594
Plant Maintenance and Operations	39,203
Total Depreciation Expenses Governmental Activities	\$ 1,531,043



# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### NOTE 5 - INTERFUND TRANSACTIONS

#### Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts payable between funds for board approved purposes such as State match requirements and contributions to Special Revenue Funds for costs associated with pupil transportation and retiree benefit costs. Interfund receivable and payable balances at June 30, 2008, between major and non-major governmental funds are as follows:

	Interfund Receivables	Interfund Payables
Major Governmental Funds		
General	\$ 1,354,400	\$ 1,803,407
Child Development	64,164	294,588
Pupil Transportation	-	830,109
Special Reserve for Other Than Capital	1,438,003	
County School Facilities	-	45,985
Total Major Governmental Funds	2,856,567	2,974,089
Non-Major Governmental Funds		
Charter	27,302	134,889
Deferred Maintenance	300,000	74,891
Total Other Governmental Funds	327,302	209,780
Total	\$ 3,183,869	\$ 3,183,869

#### Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

The General Fund transferred to the Charter School Fund to supplement fund operations.	\$ 25,000
The General Fund transferred to the Deferred Maintenance Fund for the required State match.	300,000
The General Fund transferred to the Special Reserve for Other than Capital Outlay Fund for repayment of funds borrowed for the QZAB deposit.	1,473,668
The Pupil Transportation Fund transferred to the General Fund to supplement excess SELPA and transportation costs.	830,109
Total	<u>\$ 2,628,777</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	Child Development Fund	Pupil Transportation Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$2,756,128	\$ 1,582,248	\$ 202,773	\$ 244,882	\$ 95,178	\$ 4,881,209
State apportionment	453,036	-	-	-	-	453,036
Salary and benefits payable	1,001,731	-	-	-	8,036	1,009,767
Total	<u>\$4,210,895</u>	<u>\$ 1,582,248</u>	<u>\$ 202,773</u>	<u>\$ 244,882</u>	<u>\$ 103,214</u>	<u>\$ 6,344,012</u>

### NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Child Development Fund	Total
Federal financial assistance	\$ 185,075	\$ 107,221	\$ 292,296
State categorical aid	333,887	8,424	342,311
Total	<u>\$ 518,962</u>	<u>\$ 115,645</u>	<u>\$ 634,607</u>

### NOTE 8 - LONG-TERM OBLIGATIONS

#### Summary

The changes in MCOE's long-term obligations during the year consisted of the following:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due in One Year
Qualified Zone Academy Bonds	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
Qualified Zone Academy Bonds	1,894,860	-	105,140	1,789,720	105,140
Certificates of participation	1,795,000	-	215,000	1,580,000	225,000
Accumulated vacation	370,590	79,894	64,337	386,147	386,147
Total	<u>\$ 5,060,450</u>	<u>\$ 79,894</u>	<u>\$ 384,477</u>	<u>\$ 4,755,867</u>	<u>\$ 716,287</u>

The Qualified Zone Academy Bonds and Certificates of Participation are paid by the General Fund. The accumulated vacation will be paid by the fund for which the employee works.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### Qualified Zone Academy Bonds

MCOE issued \$1,000,000 in Qualified Zone Academy Bonds. Interest is not payable with the Bonds. In lieu of receiving periodic interest payments, eligible holders of the Bonds are allowed an annual federal income tax credit equal to the credit rate times the face amount of the Bonds. The Bonds will be paid in a lump sum at maturity. The liability at June 30, 2008, was \$1,000,000. The County deposited \$554,464 from the net proceeds with the trustee. The guaranteed interest earnings are projected to be sufficient to pay off the \$1,000,000 obligation upon maturity in March 2019.

The County issued \$2,000,000 in Qualified Zone Academy Bonds on September 23, 2005. Interest is not payable on the Bonds. In lieu of receiving periodic interest payments, eligible holder of the Bonds are allowed an annual federal income tax credit equal to the credit rate times the face amount of the Bonds. The liability at June 30, 2008, is \$2,000,000. The total required payments will total \$1,682,240, which along with interest earnings will be sufficient to fund the total maturity of \$2,000,000 due September 2021.

The required payments through September 23, 2021, are as follows:

Fiscal Year	Required Payments
2009	\$ 105,140
2010	105,140
2011	105,140
2012	105,140
2013	105,140
2014-2018	525,700
2019-2022	420,560
Total Remaining Payments	1,471,960
Cumulative payments made by County Office of Education	210,280
Projected cumulative interest earnings	317,760
Total obligation to be defeased	<u>\$ 2,000,000</u>
Remaining obligation to be defeased with required payments and interest earnings	<u>\$ 1,789,720</u>

### Certificates of Participation

On August 1, 1997, MCOE issued certificates of participation in the amount of \$3,200,000 with an interest rate of 2.5 percent. As of June 30, 2008, the principal balance outstanding was \$1,580,000.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

The certificates mature through August 1, 2012, as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 225,000	\$ 78,954	\$ 303,954
2010	240,000	66,860	306,860
2011	250,000	53,935	303,935
2012	265,000	40,155	305,155
2013	600,000	16,500	616,500
Total	<u>\$ 1,580,000</u>	<u>\$ 256,404</u>	<u>\$ 1,836,404</u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for MCOE at June 30, 2008, amounted to \$386,147.

### NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Pupil Transportation Fund	Special Reserve Non-Capital Fund	Retiree Benefits Special Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Reserved								
Revolving cash	\$ 25,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,700
Stores inventory	37,875	-	-	-	-	-	-	37,875
Legally restricted	10,429,622	-	-	-	-	-	-	10,429,622
Total Reserved	<u>10,493,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,493,197</u>
Unreserved								
Designated								
Economic uncertainties	1,743,874	-	-	8,968,814	-	-	-	10,712,688
Other designation	107,172	54,035	7,708,239	-	7,552,517	6,490,591	2,018,530	23,931,084
Total Designated	<u>1,851,046</u>	<u>54,035</u>	<u>7,708,239</u>	<u>8,968,814</u>	<u>7,552,517</u>	<u>6,490,591</u>	<u>2,018,530</u>	<u>34,643,772</u>
Total Unreserved	<u>1,851,046</u>	<u>54,035</u>	<u>7,708,239</u>	<u>8,968,814</u>	<u>7,552,517</u>	<u>6,490,591</u>	<u>2,018,530</u>	<u>34,643,772</u>
Total	<u>\$12,344,243</u>	<u>\$ 54,035</u>	<u>\$ 7,708,239</u>	<u>\$ 8,968,814</u>	<u>\$ 7,552,517</u>	<u>\$ 6,490,591</u>	<u>\$ 2,018,530</u>	<u>\$ 45,136,969</u>

### NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2008, the following District major fund exceeded the budgeted amount as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Debt service	<u>\$ 411,140</u>	<u>\$ 419,613</u>	<u>\$ 8,473</u>

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 11 - POSTEMPLOYMENT BENEFITS**

In addition to PERS/STRS pension benefits described elsewhere in the report, the MCOE provides postretirement health and dental care benefits to certain employees hired prior to September 30, 1993, who retire from MCOE on or after attaining age 55 with at least five years of service. At June 30, 2008, 81 retirees met these eligibility requirements. Benefits are provided for certificated and classified retirees age 55 to 65. Management employees receive lifetime benefits. Currently, 43 retirees are receiving lifetime benefits. During the year, expenditures of \$879,362 were recognized as expenditures in the General Fund for postretirement health care based on the "pay-as-you-go" method.

As of November 15, 2007, MCOE had prepared an actuarial estimate of postretirement medical benefits. Based on MCOE eligibility requirements and claims data assumptions, the retiree benefit obligations totaled \$11,324,638.

As of June 30, 2008, MCOE had \$7,552,517 set aside in the Retiree Benefits Special Reserve Fund for this obligation.

**NOTE 12 - RISK MANAGEMENT**

MCOE's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance through the Self-Insured Schools of California (SISC) public entity risk pool (JPA). MCOE participates in the Merced County Schools Insurance Group public entity risk pool (JPA) for the workers' compensation program and purchases excess liability coverage through the JPA. Refer to Note 15 for additional information regarding the JPAs. The Property and Liability Program, for which the County retains risk of loss, is administered by the General Fund through the purchase of insurance from the Self-Insured Schools of California (SISC) public entity risk pool (JPA). Excess property and liability coverage is obtained by the JPA through AIG, CHUBB, and the National Union Fire Insurance Company.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Coverage provided by the JPAs for property and liability and workers' compensation is as follows:

Insurance Program Company Name	Type of Coverage	Limits
<u>Workers' Compensation Program</u>		
Merced County Schools Insurance Group (MCSIG)	Workers' Compensation	SIR: \$ 500,000 With coverage limit: Insurance Co. of Hanover \$25,000,000
<u>Excess Property and Liability Program</u>		
Self Insured Schools of California (SISC II)	Excess Property and Liability	Liability/Automobile Deductible: \$ 1,000 SIR: \$ 1,000,000 Excess Insurance: with AIG \$25,000,000 Property Deductible: \$ 1,000 JPA is fully insured through CHUBB Insurance to a limit of \$75,000,000 Crime Deductible: \$ 1,000 JPA is fully insured through National Union Fire Insurance Company to a limit of \$250,000

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

#### CalSTRS

##### Plan Description

MCOE contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and MCOE is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. MCOE's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$1,507,242, \$1,388,615, and \$1,264,188, respectively, and equal 100 percent of the required contributions for each year.

### CalPERS

#### Plan Description

MCOE contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

#### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and MCOE is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. MCOE's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$2,064,795, \$1,701,698, and \$1,651,177, respectively, and equal 100 percent of the required contributions for each year.

#### On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of MCOE. These payments consist of State General Fund contributions to CalSTRS in the amount of \$814,861 (4.517 percent of salaries subject to CalSTRS). No contributions were made for CalPERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund Budgetary Schedule*.



# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

#### Grants

MCOE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCOE at June 30, 2008.

#### Litigation

MCOE is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of MCOE at June 30, 2008.

#### Operating Leases

MCOE has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that MCOE will cancel any of the agreements prior to the expiration date. MCOE's estimated obligation for these agreements are as follows:

Description	Annual Obligation	Expiration
Copiers	\$ 96,240	6/30/2011

#### Construction Commitments

As of June 30, 2008, MCOE had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Green Meadows Shade Structure	\$ 141,683	November 2008
Green Meadows Boys Restrooms	214,056	October 2008
Electrical Upgrade	39,020	October 2008
Modular Building at Wolf Center	177,330	August 2008
Total	\$ 572,089	



# MERCED COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

MCOE is a member of the Self-Insured Schools of California Health and Welfare Program (SISC III), Self-Insured Schools of California Property and Liability Program (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. MCOE pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between MCOE and pools are such that they are not component units of MCOE for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and MCOE are included in these statements. Audited financial statements are available from the respective entities.

MCOE has no appointed board members to the governing board of SISC III.

During the year ended June 30, 2008, MCOE made payment of \$9,990,187 to SISC III for medical, dental, and vision insurance.

MCOE has no appointed board members to the governing board of SISC II.

During the year ended June 30, 2008, MCOE made payment of \$189,363 to SISC II for property and liability insurance.

MCOE has no appointed board members to the governing board of MCSIG.

During the year ended June 30, 2008, MCOE made payment of \$1,401,527 to MCSIG for workers' compensation.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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# MERCED COUNTY OFFICE OF EDUCATION

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	(GAAP Basis)		Actual	Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Revenue limit sources	\$22,818,838	\$23,276,705	\$ 23,101,199	\$ (175,506)
Federal sources	16,342,175	16,263,946	14,909,165	(1,354,781)
Other state sources	27,200,819	30,052,614	29,287,904	(764,710)
Other local sources	9,936,496	8,736,263	8,860,611	124,348
Total Revenues <sup>1</sup>	76,298,328	78,329,528	76,158,879	(2,170,649)
EXPENDITURES				
Current				
Certificated salaries	16,130,314	16,917,330	16,908,537	8,793
Classified salaries	20,471,824	20,780,904	20,028,124	752,780
Employee benefits	14,458,203	14,758,376	14,597,915	160,461
Books and supplies	6,324,933	9,667,292	5,607,424	4,059,868
Services and operating expenditures	18,622,351	18,871,846	14,777,320	4,094,526
Other outgo	(742,900)	(602,469)	(598,673)	(3,796)
Capital outlay	317,433	1,145,710	950,380	195,330
Debt service	306,000	411,140	419,613	(8,473)
Total Expenditures <sup>1</sup>	75,888,158	81,950,129	72,690,640	9,259,489
Excess (Deficiency) of Revenues Over Expenditures	410,170	(3,620,601)	3,468,239	7,088,840
Other Financing Sources (Uses):				
Transfers in	-	818,629	830,109	11,480
Transfers out	(325,000)	(3,062,802)	(1,798,668)	1,264,134
Net Financing Sources (Uses)	(325,000)	(2,244,173)	(968,559)	1,275,614
NET CHANGE IN FUND BALANCES	85,170	(5,864,774)	2,499,680	8,364,454
Fund Balance - Beginning	9,844,563	9,844,563	9,844,563	-
Fund Balance - Ending	\$ 9,929,733	\$ 3,979,789	\$ 12,344,243	\$ 8,364,454

<sup>1</sup> On behalf payments of have been excluded from revenues and expenditures in this schedule.

# MERCED COUNTY OFFICE OF EDUCATION

## CHILD DEVELOPMENT FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variances -
	(GAAP Basis)			Favorable
	Original	Final	Actual	(Unfavorable)
			(GAAP Basis)	Final
				to Actual
REVENUES				
Federal sources	\$ 19,871,282	\$ 19,323,769	\$ 13,429,040	\$ (5,894,729)
Other state sources	432,972	1,263,745	6,320,336	5,056,591
Other local sources	3,389,417	3,743,930	4,405,822	661,892
Total Revenues <sup>1</sup>	23,693,671	24,331,444	24,155,198	(176,246)
EXPENDITURES				
Current				
Certificated salaries	2,557,709	2,665,656	2,664,859	797
Classified salaries	3,990,126	4,000,738	3,911,668	89,070
Employee benefits	2,306,259	2,414,988	2,324,034	90,954
Books and supplies	853,799	1,126,607	1,125,976	631
Services and operating expenditures	12,460,824	12,110,371	12,109,612	759
Other outgo	1,504,954	1,500,084	1,499,375	709
Capital outlay	20,000	513,000	512,628	372
Total Expenditures <sup>1</sup>	23,693,671	24,331,444	24,148,152	183,292
Excess (Deficiency) of Revenues				
Over Expenditures	-	-	7,046	7,046
NET CHANGE IN FUND BALANCES	-	-	7,046	7,046
Fund Balance - Beginning	46,989	46,989	46,989	-
Fund Balance - Ending	\$ 46,989	\$ 46,989	\$ 54,035	\$ 7,046

<sup>1</sup> On behalf payments of have been excluded from revenues and expenditures in this schedule.

**MERCED COUNTY OFFICE OF EDUCATION**

**PUPIL TRANSPORTATION FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts (GAAP Basis)		Actual	Variances - Favorable (Unfavorable) Final to Actual
	Original	Final	(GAAP Basis)	
<b>REVENUES</b>				
Other local sources	\$ 402,304	\$ 302,304	\$ 393,015	\$ 90,711
<b>Total Revenues</b>	<u>402,304</u>	<u>302,304</u>	<u>393,015</u>	<u>90,711</u>
<b>EXPENDITURES</b>				
Capital outlay	360,000	360,000	202,773	157,227
<b>Total Expenditures</b>	<u>360,000</u>	<u>360,000</u>	<u>202,773</u>	<u>157,227</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>42,304</u>	<u>(57,696)</u>	<u>190,242</u>	<u>247,938</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	1,859,509	-	(1,859,509)
Transfers out	-	(830,335)	(830,109)	226
<b>Net Financing Sources (Uses)</b>	<u>-</u>	<u>1,029,174</u>	<u>(830,109)</u>	<u>(1,859,283)</u>
<b>NET CHANGE IN FUND BALANCES</b>	42,304	971,478	(639,867)	(1,611,345)
<b>Fund Balance - Beginning</b>	8,348,106	8,348,106	8,348,106	-
<b>Fund Balance - Ending</b>	<u>\$ 8,390,410</u>	<u>\$ 9,319,584</u>	<u>\$ 7,708,239</u>	<u>\$ (1,611,345)</u>

**MERCED COUNTY OFFICE OF EDUCATION**

**SPECIAL RESERVE NON-CAPITAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Favorable (Unfavorable) Final to Actual
	Original	Final		
<b>REVENUES</b>				
Other local sources	\$ 243,330	\$ 243,330	\$ 298,583	\$ 55,253
<b>Total Revenues</b>	<u>243,330</u>	<u>243,330</u>	<u>298,583</u>	<u>55,253</u>
<b>EXPENDITURES</b>				
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>243,330</u>	<u>243,330</u>	<u>298,583</u>	<u>55,253</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	1,530,000	1,473,668	(56,332)
<b>Net Financing Sources (Uses)</b>	<u>-</u>	<u>1,530,000</u>	<u>1,473,668</u>	<u>(56,332)</u>
<b>NET CHANGE IN FUND BALANCES</b>	243,330	1,773,330	1,772,251	(1,079)
<b>Fund Balance - Beginning</b>	7,196,563	7,196,563	7,196,563	-
<b>Fund Balance - Ending</b>	<u>\$ 7,439,893</u>	<u>\$ 8,969,893</u>	<u>\$ 8,968,814</u>	<u>\$ (1,079)</u>



**MERCED COUNTY OFFICE OF EDUCATION**

**RETIREE BENEFITS SPECIAL RESERVE FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts (GAAP Basis)		Actual	Variances - Favorable (Unfavorable) Final to Actual
	Original	Final	(GAAP Basis)	
<b>REVENUES</b>				
Other local sources	\$ 134,926	\$ 474,926	\$ 473,533	\$ (1,393)
<b>Total Revenues</b>	<u>134,926</u>	<u>474,926</u>	<u>473,533</u>	<u>(1,393)</u>
<b>EXPENDITURES</b>				
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>134,926</u>	<u>474,926</u>	<u>473,533</u>	<u>(1,393)</u>
<b>Other Financing Sources (Uses):</b>				
<b>Net Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	134,926	474,926	473,533	(1,393)
<b>Fund Balance - Beginning</b>	7,078,984	7,078,984	7,078,984	-
<b>Fund Balance - Ending</b>	<u>\$ 7,213,910</u>	<u>\$ 7,553,910</u>	<u>\$ 7,552,517</u>	<u>\$ (1,393)</u>

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*SUPPLEMENTARY INFORMATION*

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# MERCED COUNTY OFFICE OF EDUCATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Migrant Education	84.011	14326	\$ 7,988,549
Migrant Education - Even Start	84.011	14768	342,420
Title I - Part A Basic Low-Income and Neglected	84.010	14329	716,758
Title I - Basic School Support	84.010	14416	115,499
Title I - Program Improvement District Intervention	84.010	14581	102,220
Title I, Part D, Local Delinquent Program	84.010	14357	25,291
Title V- Innovative Strategies	84.298A	13340	2,717
Title II - Teacher Quality	84.367	14341	13,782
Title IV - Drug-Free Schools	84.186	14347	11,901
Title III - Limited English	84.365	10084	6,394
Title III - Immigrant Education	84.365	14346	21,964
Title II - Enhancing Education through Technology	84.318	14334	2,135
Title II - Math/Science Partnership	84.366	14512	44,103
Special Education Cluster			
Basic Grant	84.027	13379	1,288,718
Preschool Local, Part B	84.173	13430	235,612
Preschool Local Entitlement	84.027A	13682	470,386
Mental Health	84.027	14468	172,473
Preschool Staff Development	84.173A	13431	1,480
Subtotal - Special Education Cluster			<u>2,168,669</u>
Early Intervention	84.181	23761	<u>112,331</u>
Vocational Education Act:			
Secondary Education	84.048	13924	81,413
Adult Section 132	84.048	13923	119,759
Subtotal U.S. Department of Education			<u>11,875,905</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education (CDE):			
Child Nutrition-School Program	10.555	13391	<u>1,171,199</u>
Subtotal U.S. Department of Agriculture			<u>1,171,199</u>
<b>U.S. DEPARTMENT OF LABOR</b>			
Passed through California Department of Education (CDE):			
Workforce Investment Act	17.259	10055	995,270
Workforce Investment Act High Concentration Youth	17.259	10055	49,215
Subtotal U.S. Department of Labor			<u>1,044,485</u>

See accompanying note to supplementary information.

**MERCED COUNTY OFFICE OF EDUCATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Head Start	93.600	10016	\$ 8,445,450
Head Start - Training and Technical Assistance	93.600	10016	76,915
Passed through California Department of Education (CDE):			
Medicaid Cluster			
Medi-Cal Option Billing	93.778	10013	176,583
Medi-Cal Administration Assistance	93.778	10060	1,081,587
Medi-Cal Speech	93.778	10013	6,199
Medi-Cal Health	93.778	10013	11,938
Medi-Cal Psychology	93.778	10013	14,000
Subtotal-Medicaid Cluster			<u>1,290,307</u>
Child Care and Development Fund (CCDF) Cluster			
CD Block Grant 25 Percent	93.575	13979	728,673
Alternate Payment	93.596	13694	1,672,636
Alternate Payment Stage III	93.575	13881	1,413,195
Centralized Eligibility List	93.575	14776	130,239
Resource and Referral	93.575	13934	39,223
Local Child Care Planning Council	93.575	13946	106,196
Alternate Payment Stage II	93.575	13625	343,782
Subtotal-CCDF Cluster			<u>4,433,944</u>
Subtotal U.S. Department of Health and Human Services			<u>14,246,616</u>
Total Federal Programs			<u>\$28,338,205</u>

See accompanying note to supplementary information.

# MERCED COUNTY OFFICE OF EDUCATION

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

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### ORGANIZATION

The Merced County Office of Education was established in 1856. Educational programs operated for special populations of students are three-county regional Migrant (Merced, Stanislaus, and Madera), Special Education, Regional Occupational Program, Title VII Bilingual/Bicultural, Community School, Juvenile Court School, Job Training Partnership Act, and Outdoor School.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Fred Honoré	Chairperson	2011
Mary Ellen Chavez	Vice Chairperson	2009
August Rudolph Albritton	Member	2011
Daniel J. Doody	Member	2009
David March	Member	2009

### ADMINISTRATION

Lee Andersen	County Superintendent
Nelson Heisey	Assistant Superintendent, Business Services

See accompanying note to supplementary information.

# MERCED COUNTY OFFICE OF EDUCATION

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2008

	Revised Annual Report	Revised Second Period Report
JUVENILE HALLS		
Elementary	13.82	12.25
High	136.36	134.88
COMMUNITY SCHOOLS PUPILS		
Probation		
Elementary	125.95	116.03
High	737.37	727.60
Expelled		
Elementary	1.81	2.11
High	6.36	6.54
REGIONAL OCCUPATIONAL PROGRAM	1,357.75	1,353.17
COMMUNITY DAY SCHOOLS		
Regular		
Elementary	22.30	18.13
High	160.47	161.47
5th hour ADA		
Elementary	21.18	17.29
High	150.36	152.13
6th hour ADA		
Elementary	20.54	16.73
High	142.63	144.27
Total Average Daily Attendance	2,896.90	2,862.60
SUPPLEMENTAL HOURS		
Grades 7-12 Remedial Instruction	19,683.00	15,264.00
MERCED SCHOLARS CHARTER SCHOOL		
Regular Elementary and High School		
Grades 7-8	14.69	13.47
Grades 9-12	77.96	76.80
Total Average Daily Attendance	92.65	90.27

<sup>1</sup> All non-classroom based.

See accompanying note to supplementary information.



**MERCED COUNTY OFFICE OF EDUCATION**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2008**

Grade Level	1982-83	1986-87	2007-08	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	48,708	36,000	73,170	180	N/A	Complied
Grades 1 - 3	49,219	50,400				
Grade 1			72,900	180	N/A	Complied
Grade 2			72,900	180	N/A	Complied
Grade 3			72,900	180	N/A	Complied
Grades 4 - 6	51,310	54,000				
Grade 4			73,710	180	N/A	Complied
Grade 5			73,710	180	N/A	Complied
Grade 6			73,710	180	N/A	
Grades 7 - 8	51,310	54,000				
Grade 7			73,346	180	N/A	Complied
Grade 8			73,346	180	N/A	Complied
Grades 9 - 12	51,975	64,800				
Grade 9			73,346	180	N/A	Complied
Grade 10			73,346	180	N/A	Complied
Grade 11			73,346	180	N/A	Complied
Grade 12			73,346	180	N/A	Complied

See accompanying note to supplementary information.

**MERCED COUNTY OFFICE OF EDUCATION**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2008.

See accompanying note to supplementary information.

# MERCED COUNTY OFFICE OF EDUCATION

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

	(Budget) 2009 <sup>1</sup>	2008	2007	2006
GENERAL FUND				
Revenues, transfers in and other sources <sup>3</sup>	\$ 70,367,699	\$76,988,988	\$69,405,688	\$63,098,575
Expenditures	69,758,165	72,690,640	63,587,966	60,932,650
Other uses and transfers out	599,645	1,798,668	2,065,605	2,415,630
Total Expenditures and transfers out <sup>3</sup>	70,357,810	74,489,308	65,653,571	63,348,280
INCREASE/(DECREASE) IN FUND BALANCE	\$ 9,889	\$ 2,499,680	\$ 3,752,117	\$ (249,705)
ENDING FUND BALANCE	\$12,354,132	\$12,344,243	\$ 9,844,563	\$ 6,092,446
AVAILABLE RESERVES <sup>2</sup>	\$10,722,577	\$10,712,688	\$ 8,764,908	\$ 6,374,652
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	15.24%	14.38%	13.35%	10.06%
LONG-TERM OBLIGATIONS	Not Available	\$ 4,755,867	\$ 5,060,450	\$ 5,434,927
AVERAGE DAILY ATTENDANCE AT ANNUAL <sup>4</sup>	2,497	2,562	2,235	2,202

The General Fund balance has increased by \$6,251,797 over the past two years. The fiscal year 2008-09 budget projects an increase of \$9,889. For a county office of education this size, the State recommends available reserves of at least 2.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

MCOE has incurred operating surpluses in two of the past three years and anticipates an operating surplus during the 2008-09 fiscal year. Total long-term obligations have decreased by \$679,060 over the past two years.

Average daily attendance has increased by 360 ADA over the past two years. A decline of 65 ADA is anticipated during fiscal year 2008-09.

<sup>1</sup> Budget 2009 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Non-Capital Fund.

<sup>3</sup> On behalf payments have been excluded from this schedule and from the calculation of available reserves.

<sup>4</sup> Excludes Charter School ADA 5th and 6th hour additional funding ADA for Community Day Schools.

See accompanying note to supplementary information.

## **MERCED COUNTY OFFICE OF EDUCATION**

### **EXCESS SICK LEAVE**

**JUNE 30, 2008**

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#### **Section 19833.5 (a)(3) or (a)(3)(b) Disclosure**

Merced County Office of Education does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

## SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2008

See accompanying note to supplementary information.

## **MERCED COUNTY OFFICE OF EDUCATION**

### **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008**

---

#### **NOTE 1 - PURPOSE OF SCHEDULES**

##### **Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of MCOE and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

##### **Local Education Agency Organization Structure**

This schedule provides information about the County Office of Education's boundaries and schools operated, members of the governing board, and members of the administration.

##### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MCOE. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

##### **Schedule of Instructional Time**

MCOE has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The schedule presents information on the amount of instructional time offered by MCOE and whether MCOE complied with the provisions of Education Code Sections 46200 through 46206.

County offices must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

##### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

##### **Schedule of Financial Trends and Analysis**

This schedule discloses MCOE's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate MCOE's ability to continue as a going concern for a reasonable period of time.

##### **Excess Sick Leave**

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

# MERCED COUNTY OFFICE OF EDUCATION

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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### Schedule of Charter Schools

This schedule lists all charter schools chartered by the County Office of Education, and displays information for each charter school on whether or not the charter school is included in the County Office of Education audit.

THE UNIVERSITY OF CHICAGO

PHILIPPOPOPOVSKI, S. V. (1991) THE

CHICAGO

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***SUPPLEMENTARY INFORMATION - UNAUDITED***

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MERCED COUNTY OFFICE OF EDUCATION

NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET - UNAUDITED  
JUNE 30, 2008

	Charter School Fund	Deferred Maintenance Fund	Total Non-Major Governmental Funds
<b>ASSETS</b>			
Deposits and investments	\$ -	\$ 1,832,375	\$ 1,832,375
Receivables	175,197	-	175,197
Due from other funds	27,302	300,000	327,302
<b>Total Assets</b>	<u>\$ 202,499</u>	<u>\$ 2,132,375</u>	<u>\$ 2,334,874</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ 3,350	\$ -	\$ 3,350
Accounts payable	12,951	90,263	103,214
Due to other funds	134,889	74,891	209,780
<b>Total Liabilities</b>	<u>151,190</u>	<u>165,154</u>	<u>316,344</u>
<b>Fund Balances:</b>			
Unreserved:			
Designated	51,309	1,967,221	2,018,530
<b>Total Fund Balance</b>	<u>51,309</u>	<u>1,967,221</u>	<u>2,018,530</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 202,499</u>	<u>\$ 2,132,375</u>	<u>\$ 2,334,874</u>

See accompanying note to supplementary information - unaudited.

**MERCED COUNTY OFFICE OF EDUCATION**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Charter School Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Revenue limit sources	\$ 567,045	\$ -	\$ 567,045
Other State sources	114,345	312,989	427,334
Other local sources	5,641	-	5,641
<b>Total Revenues</b>	<b>687,031</b>	<b>312,989</b>	<b>1,000,020</b>
<b>EXPENDITURES</b>			
Current			
Instruction	360,037	-	360,037
Instruction-related activities:			
Supervision of instruction	107,872	-	107,872
School site administration	151,199	-	151,199
Pupil services:			
All other pupil services	14,412	-	14,412
General administration:			
All other general administration	44,318	-	44,318
Plant services	66,794	27,701	94,495
Facility acquisition and construction	-	494,459	494,459
Community services	136	-	136
<b>Total Expenditures</b>	<b>744,768</b>	<b>522,160</b>	<b>1,266,928</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(57,737)</b>	<b>(209,171)</b>	<b>(266,908)</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	25,000	300,000	325,000
<b>Net Financing Sources (Uses)</b>	<b>25,000</b>	<b>300,000</b>	<b>325,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(32,737)</b>	<b>90,829</b>	<b>58,092</b>
<b>Fund Balance - Beginning</b>	<b>84,046</b>	<b>1,876,392</b>	<b>1,960,438</b>
<b>Fund Balance - Ending</b>	<b>\$ 51,309</b>	<b>\$ 1,967,221</b>	<b>\$ 2,018,530</b>

See accompanying note to supplementary information - unaudited.

# MERCED COUNTY OFFICE OF EDUCATION

## NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

$$\omega(\mathbf{r}) = \frac{1}{2} \left( \frac{\partial \phi}{\partial x} \right)^2 + \frac{1}{2} \left( \frac{\partial \phi}{\partial y} \right)^2 + \frac{1}{2} \left( \frac{\partial \phi}{\partial z} \right)^2$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

$$\mathbf{r} = (x, y, z) \quad \mathbf{r}' = (x', y', z') \quad \mathbf{r}'' = (x'', y'', z'')$$

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*INDEPENDENT AUDITORS' REPORTS*

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board  
Merced County Office of Education  
Merced, California

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Merced County Office of Education as of and for the year ended June 30, 2008, which collectively comprise Merced County Office of Education's basic financial statements and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Merced County Office of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Merced County Office of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merced County Office of Education's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Merced County Office of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of State Awards Findings and Questioned Costs as items 2008-1 and 2008-2.

Merced County Office of Education's responses to the findings identified in our audit are described in the accompanying Schedule of State Awards Findings and Questioned Costs. We did not audit Merced County Office of Education's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vaithianar, Orino, Day & Co., LLP*

Fresno, California  
December 16, 2008



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board  
Merced County Office of Education  
Merced, California

**Compliance**

We have audited the compliance of Merced County Office of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. Merced County Office of Education's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Merced County Office of Education's management. Our responsibility is to express an opinion on Merced County Office of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Merced County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Merced County Office of Education's compliance with those requirements.

In our opinion, Merced County Office of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

## Internal Control Over Compliance

The management of Merced County Office of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Merced County Office of Education's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Merced County Office of Education's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vankinek, Orine, Day & Co., LLP

Fresno, California  
December 16, 2008



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board  
Merced County Office of Education  
Merced, California

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Merced County Office of Education as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Merced County Office of Education's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Merced County Office of Education's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Yes
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Yes
Instructional Time:		
School districts	6	Not Applicable
County offices of education	3	Yes
Community day schools	9	Yes
Morgan-Hart Class Size Reduction	7	Not Applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Not Applicable

	Procedures in Audit Guide	Procedures Performed
Classroom Teacher Salaries	1	Not Applicable
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School district bonds	3	Not Applicable
State school facilities funds	1	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Yes
Determination of funding for non classroom-based instruction	3	Yes
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Merced County Office of Education complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Merced County Office of Education had not complied with the laws and regulations. Our audit does not provide a legal determination on Merced County Office of Education's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vaurinek, Urine, Day & Co., LLP*

Fresno, California  
December 16, 2008

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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# MERCED COUNTY OFFICE OF EDUCATION

## SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2008

### FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

### FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I Programs</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster</u>
<u>17.255</u>	<u>Workforce Investment Act</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>93.575, 93.596</u>	<u>Child Care Development Fund Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 850,146</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

### STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

## MERCED COUNTY OFFICE OF EDUCATION

### FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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None reported.

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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None reported.

## MERCED COUNTY OFFICE OF EDUCATION

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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The following findings represent instances of noncompliance relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
70000	Instructional Materials
72000	School Accountability Report Card

2008-1 72000

#### *School Accountability Report Card*

##### **Criteria**

The County Office should be using the Facilities Inspection Tool (FIT) report in reporting the facility conditions evaluation developed by the Office of Public School Construction pursuant to the provision of subdivision of Education Code Section 17002, if the County has a school ranked in deciles one to three on the Academic Performance Index (API). This information should be reported on the School Accountability Report Card (SARC) as required by the provisions of subdivision (b) (9) of Education Code Section 33126.

##### **Condition**

The information noted on Facilities Inspection Tool Report is inconsistent with the information on the School Accountability Report Card (SARC). The Atwater Valley Community Day School FIT report indicated that the fire safety and electrical sections are in poor repair status, and restrooms are in fair repair status, however, they are reported as good repair status on the SARC. Discrepancies are also found in the Valley Los Banos FIT report, where windows, interior surfaces, fire safety, restrooms, and roofs are being reported as fair condition, and electrical as being poor condition, however, they are all being reported as good repair condition on the SARC.

##### **Questioned Costs**

Questioned Cost: There is no questioned cost associated with this exception

Likely Questioned Cost: There is no questioned cost associated with this exception

##### **Prevalence**

The finding covers the Atwater Valley Community Day and Valley Los Banos FIT report that are not reported on the SARC.

##### **Effect**

There is no financial impact with this finding.

# MERCED COUNTY OFFICE OF EDUCATION

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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### Recommendation

The County should ensure that the SARC's being prepared are consistent with the information in the FIT.

### County Response

VCS will implement a new procedure for the SARC report. The Categorical Coordinator will bring every site administrator together and review each FIT report, to ensure that the data reported on the SARC is accurate according to the FIT.

2008-2 70000

### *Instructional Materials*

#### Criteria

For purposes of State Instructional Materials program requirements, county offices are required to make a determination and pass a resolution as to the sufficiency of instructional materials in specific areas adopted by the State Board of Education. According to section seven, subsection "c" of the 2007-08 Audit Guide, insufficiencies of instructional materials are to be resolved within two months of the beginning of the school year or all grant money from the state for the year in which the insufficiency of instructional materials was not resolved, is at risk of being denied.

#### Condition

The County held a public hearing on sufficiency of instructional materials on October 1, 2007, and passed a resolution as to the insufficiency of textbooks and instructional materials to the pupils. It appears that the County did not resolve the insufficiencies of instructional materials within two months of the beginning of the school year.

#### Questioned Costs

Questioned Cost: \$101,381  
Likely Questioned Cost: \$101,381

The questioned cost was based on the grant award letter taken from the CDE website.

#### Prevalence

The finding covers all resource code 7156 grant funds.

#### Effect

The county could be required to reimburse the state for any questioned costs.

## **MERCED COUNTY OFFICE OF EDUCATION**

### **STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

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#### **Recommendation**

The county should enact procedures to ensure that all necessary instructional materials are provided within the requirements of the state audit guide.

#### **County Response**

The newly appointed on-site categorical coordinator has implemented new procedures for all VCS staff when ordering textbooks. All orders will go through her and she will keep a master list of all inventory of textbooks. She will also be responsible for preparing the appropriate reports for board approval. Textbooks will be ordered to meet the timelines prescribed for instructional materials. We will discuss with CDE the possibility of a waiver for the funds in question. If none is available we will return the money.

# MERCED COUNTY OFFICE OF EDUCATION

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *State Award Findings*

2007-1 10000

#### *Attendance Reporting*

##### **Finding**

While testing the Merced Community Scholars Charter Second Period and Annual Attendance Reports we noted the County did not use the correct divisor when calculating Average Daily Attendance this caused misstatements in areas of both reports. The actual number of school days for each reporting period should be used as a divisor rather than 135 days for the Second Period and 175 days for the Annual Attendance. The revisions needed and related fiscal impact due to the revisions are presented below:

	Original Second Period Report	Revised Second Period Report	Change	Original Annual Report	Revised Annual Report	Change
Seventh and eighth	26.56	25.26	(1.30)	25.11	24.44	(0.67)
Ninth and twelvth	87.08	82.91	(4.17)	81.82	79.84	(1.98)
Grand Total	113.64	108.17	(5.47)	106.93	104.28	(2.65)

The fiscal impact of the P-2 revision on Regular Education Revenue Limit Funding totals \$34,251.

##### **Recommendation**

The County should use the correct number of days as the divisor when calculating their Average Daily Attendance. Where possible, the attendance system should be used to run cumulative reports as to minimize the amount of input areas and formulas needed to obtain the period attendance totals (i.e. P-1, P-2, Annual). The Second Period and Annual Attendance reports must be revised and resubmitted to all applicable agencies including the external auditors.

##### **Current Status**

Implemented.

## MERCED COUNTY OFFICE OF EDUCATION

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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2007-2 10000

#### *ROP Attendance Records*

##### **Finding**

In tracing total apportionment from monthly detail reports to the scantrons for sample students, instances were noted where the detail reports did not agree to the scantrons. Specifically, there were sample students from nine teachers that were marked absent on the registers but apportionment was credited to the students' attendance. In addition, there was one teacher that did not input the correct credit hours to the student's attendance, and as a result, the student received twelve excess minutes.

##### **Recommendation**

Based on the frequency of errors reported, additional controls are needed to detect attendance discrepancies. The site should implement additional controls designed to detect attendance recording errors. For example, the attendance clerk could perform a random check of scantrons against the monthly attendance report. This procedure would be applied on a sample basis only, but would serve as an additional safeguard against attendance discrepancies. The ROP is only paid up to their cap, and as of the audit date, the County is unable to determine the actual cap. Due to this, we are unable to determine the question cost associated with this finding.

##### **Current Status**

Implemented.